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| WARWICK DISTRICT COUNCIL | **Finance and Audit Scrutiny Committee 9 July 2019** | **Agenda Item No. 5** |

| | |
|---|---|
| **Title** | Treasury Management Activity Report for the period 1 October 2018 to 31 March 2019 |
| **For further information about this report please contact** | Karen Allison, Assistant Accountant<br>01926 456334<br>karen.allison@warwickdc.gov.uk |
| **Wards of the District directly affected** | All |
| **Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006** | No |
| **Date and meeting when issue was last considered and relevant minute number** | n/a |
| **Background Papers** | Treasury Management File L2/9<br>Treasury Management Information via External Advisers, Brokers, External Investment Agents etc. |

| | |
|---|---|
| **Contrary to the policy framework:** | No |
| **Contrary to the budgetary framework:** | No |
| **Key Decision?** | No |
| **Included within the Forward Plan? (If yes include reference number)** | No |
| **Equality & Sustainability Impact Assessment Undertaken** | No – not relevant |

| **Officer/Councillor Approval** | | |
|---|---|---|
| **Officer Approval** | **Date** | **Name** |
| Chief Executive/Deputy Chief Executive | 21/6/19 | Andrew Jones |
| Head of Service | 18/6/19 | Mike Snow |
| CMT | 21/6/19 | |
| Section 151 Officer | 18/6/19 | Mike Snow |
| Monitoring Officer | 21/6/19 | Andrew Jones |
| Finance | 19/6/19 | Karen Allison |
| Portfolio Holder(s) | 26/6/19 | Cllr Richard Hales |
| **Consultation & Community Engagement** | | |
| None | | |
| **Final Decision?** | | Yes |
| **Suggested next steps (if not final decision please set out below)** | | |

## 1. Summary

1.1 This report details the Council's Treasury Management performance for the period 1 October 2018 to 31 March 2019.

## 2. Recommendations

2.1 That Finance and Audit Scrutiny Committee notes the contents of this report.

## 3. Reasons for the Recommendation

3.1 The Council's 2018/19 Treasury Management Strategy and Treasury Management Practices (TMP's) require the performance of the Treasury Management Function to be reported to Members on a half yearly basis.

## 4. Policy Framework

4.1 **Fit for the Future (FFF)**

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

| **FFF Strands** | | |
|---|---|---|
| **People** | **Services** | **Money** |
| **External** | | |
| **Health, Homes, Communities** | **Green, Clean, Safe** | **Infrastructure, Enterprise, Employment** |
| Intended outcomes:<br>Improved health for all<br>Housing needs for all met<br>Impressive cultural and sports activities<br>Cohesive and active communities | Intended outcomes:<br>Area has well looked after public spaces<br>All communities have access to decent open space<br>Improved air quality<br>Low levels of crime and ASB | Intended outcomes:<br>Dynamic and diverse local economy<br>Vibrant town centres<br>Improved performance/ productivity of local economy<br>Increased employment and income levels |
| **Impacts of Proposal** | | |
| The Treasury Management function enables the Council to meet its vision. | The Treasury Management function enables the Council to meet its vision. | The Treasury Management function enables the Council to meet its vision. |
| **Internal** | | |
| **Effective Staff** | **Maintain or Improve Services** | **Firm Financial Footing over the Longer Term** |
| Intended outcomes:<br>All staff are properly | Intended outcomes:<br>Focusing on our | Intended outcomes:<br>Better return/use of our |

| | | |
|---|---|---|
| trained<br>All staff have the appropriate tools<br>All staff are engaged, empowered and supported<br>The right people are in the right job with the right skills and right behaviours | customers' needs<br>Continuously improve our processes<br>Increase the digital provision of services | assets<br>Full Cost accounting<br>Continued cost management<br>Maximise income earning opportunities<br>Seek best value for money |
| **Impacts of Proposal** | | |
| The Treasury Management function enables the Council to meet its vision. | The Treasury Management function enables the Council to meet its vision. | The Treasury Management function enables the Council to meet its vision. |

4.2 **Supporting Strategies**

Each strand of the FFF Strategy has several supporting strategies. The Treasury Management function is consistent with the relevant supporting strategies.

4.3 **Changes to Existing Policies**

The Treasury Management function is in accordance with existing policies.

4.4 **Impact Assessments** – No impacts of new or significant policy changes proposed in respect of Equalities.

## 5. Budgetary framework

5.1 Treasury Management has a potentially significant impact on the Council's budget through its ability to maximise its investment interest income and minimize borrowing interest payable whilst ensuring the security of the capital. The Council is reliant upon interest received to help fund the services it provides. The actual investment interest earned in 2018/19 compared with the original and latest budgets is shown in the following table:

| | **Original 2018/19 Budget £'000** | **Latest 2018/19 Budget £'000** | **2018/19 Actual £'000** |
|---|---|---|---|
| Gross investment interest | 675 | 544 | 937 |
| *less* HRA allocation | -213 | -213 | -335 |
| **Net interest to General Fund** | **462** | **331** | **602** |

## 6. Risks

6.1 Investing the Council's funds inevitably creates risk and the Treasury Management function effectively manages this risk through the application of the SLY principle. Security(S) ranks uppermost followed by Liquidity (L) and finally Yield(Y). It's accepted that longer duration investments increase the security risk within the portfolio, however this is inescapable in order to achieve the best possible return and still comply with the SLY principle, which is a cornerstone of treasury management within local authorities.

6.2 In addition to credit ratings themselves, the Council will also have regard to any ratings watch notices issued by the 3 agencies as well as articles in the Financial press, market data and intelligence from Link Asset Services benchmarking groups. It will also use Credit Default Swap (CDS) data as supplied by Link Asset Services – Treasury Solutions to determine the suitability of investing with counterparties.

6.3 Corporate Bonds and Floating Rate Notes (FRN's) introduce Counterparty credit risk into the portfolio by virtue of the fact that it is possible that the institution invested in could become bankrupt leading to the loss of all or part of the Council's investment. This is mitigated by only investing in Corporate Bonds or FRN's with a strong Fitch credit rating, in this case A and issued as Senior Unsecured debt which ranks above all other debt in the case of a bankruptcy.

6.4 Covered Bonds also reduces risk as the bond is "backed" by high quality assets such as prime residential mortgages thus ensuring that if the bond issuer defaults there are sufficient assets that can be realised in order to repay the bond in full.

6.5 Corporate Equity Funds have potential capital loss due to market price fluctuations. This is mitigated by ensuring the investments are available for the necessary length of time to ensure that there is no negative impact on the capital value of the fund. In addition, mitigation is achieved by having a spread of funds with differing risk appetites. The introduction of a "stop loss" limit in the case of Bond/Equity Funds whereby if the value in the fund(s) goes below a defined limit, the holdings in that fund will be sold thus limiting further losses will also reduce risk as will the use of a "volatility" reserve as a certain proportion of the annual return on the fund will be credited to the reserve and then when required released to revenue to either cover or at least mitigate the impact of any deficits.

## 7. Alternative Option(s) considered

7.1 This report retrospectively looks at what has happened during the last 6 months. It is a statement of fact.

## 8. Background

8.1 A detailed commentary by our Treasury Consultants, Link Asset Services, of the economic background surrounding this report appears as Appendix C.

## 9. Interest rate environment

9.1. The major influence on the Council's investments is the Bank Rate. The Bank Rate increased in August 2018 from 0.50% to 0.75%. The Council's Treasury

Management Advisors, Link Asset Services, provided the following forecast for future Bank Rates:

**Link Asset Services Bank Rate Forecasts:**

| Qtr ending | Now (Feb 19) | Mar 19 | Jun 19 | Sep 19 | Dec 19 | Mar 20 | Jun 20 | Sep 20 | Dec 20 | Mar 21 | Jun 21 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Current Forecast, as at Feb 2019:** | | | | | | | | | | | |
| Bank Rate | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | 1.50% | 1.50% |
| **Forecast, as at January 2018, (when Original Budgets were set):** | | | | | | | | | | | |
| Bank Rate | 0.75% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | 1.25% | 1.25% | n/a |

The forecast as at January 2018 is shown for comparison purposes as this forecast was used in calculating the original budgets.

9.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2018/19 was approved by Council on 21 February 2018. This approved the current lending criteria which reflect the level of risk appetite of the Council. However, the Council continues to review its Standard Lending List as a result of frequent changes to Banking Institutions credit ratings, to ensure that it does not lend to those institutions identified as being at risk. A copy of the current lending list is shown as Appendix D.

## 10 INVESTMENT PERFORMANCE

### Core Investments

10.1. During 2018/19, the in house function has invested its core cash in fixed term deposits in the Money Markets. The table in Appendix A illustrates the performance of the in house function during this second half year for each category normally invested in.

10.2 All the LIBID Benchmark rates in the table and referred to below include a margin of 0.0625%.

10.3 During October to March, nineteen core investments matured. The majority of these were then invested for a period of around 1 year until the beginning of 2019 when a more laddered approach of length of investment was taken in light of capital funding requirements and the uncertainty of interest rate movements.

10.4 Investments that underperformed the benchmark were taken out in January 2018 with Helaba and Credit Industriel Et Commercial (CD) for a period of approximately 1 year. However, when compared to the benchmark at the time when the investments were taken out, they slightly out-performed.

10.5 Investments that out-performed the benchmark included Lloyds Bank, Monmouthshire County Council and Close Brothers. All of these were invested in January to March 2019 for a period of between 3 and 6 months.

10.6 During 2018/19 the Council earned £265,535 interest on its Money Market investments at an average rate of 0.97%.

**Cash Flow Derived Funds & Accounts**

10.7 During January to March the Council's cash flow investments began to unwind themselves as cash outflows (precepts, NNDR payments to the Pool etc.) exceeded the inflows and any cash flow investments during this period were made into the Money Market Funds.

10.8 The in house function utilises the Money Market Funds and Call Accounts to assist in managing its short term liquidity needs. Their performance in this period is shown in table 2 of Appendix A.

10.9 During the half year, the Council's cash flow investments were into the Money Market Funds.

10.10 As with the Money Market investments in paragraph 10.2, the LIBID benchmark which in this case is the 7-day rate has been increased by a margin of 0.0625% and the results can be found in table 2 in Appendix A.

10.11 The Council continued to concentrate its investments in the highest performing funds Federated (variable and constant net asset value funds), Royal London Cash Plus, Aberdeen Standard and Invesco.

10.12 During 2018/19 the Council earned £269,800 interest on its Money Market Fund investments at an average rate of 0.67%. The average balance during the year was £39,992,277.

**Call Accounts**

10.13 As with the Money Market investments in paragraph 10.2, the LIBID benchmark, has been increased by a margin of 0.0625%.

10.14 During 2018/19 the Council earned £36,800 interest on its Call Accounts at an average rate of 0.53% and the average balance held was £6.986m.

10.15 In February 2019 notice was given on the 35-day notice Svenska Handelsbanken Account due to its low interest rate. When it was repaid in March it was invested in the HSBC BDA account.

10.16 The following table brings together the investments made in the various investment vehicles during the year to give an overall picture of the investment return:

| Vehicle | Return (Annualised) £'000 | Benchmark (Annualised) £'000 | Perform-ance £'000 |
|---|---|---|---|
| Money Markets | 265.5 | 262.7 | 2.8 |
| Money Market Funds | 269.8 | 227.4 | 42.4 |
| Call Accounts | 36.8 | 40.4 | -3.6 |
| **Total** | **572.1** | **530.5** | **41.6** |

**Actual Outturn**

10.17 The table below provides a breakdown of original estimate against actual outturn 2018/19:

| **Original Estimate compared to Outturn £'000** | | **Latest Estimate to Outturn £'000** | |
|---|---|---|---|
| Original estimate of annual external investment interest and other interest such as car loan and long term investments for 2018/19 | £614.0 | Latest Estimate | £448.1 |
| Outturn | £642.5 | Outturn | £642.5 |
| Increase of | £28.5 | Increase of | £194.4 |
| Mainly due to:<br>Additional interest earned on balances due to higher than expected interest rates. | +£28.5 | Mainly due to:<br>1) Additional interest earned on balances due to higher than expected interest rates.<br>2) Higher than expected equated bank balances due to phasing of capital expenditure. | +£78.9<br>+£115.5 |

It should be noted that the total investment return of £642,500 shown in the table above is in respect of investments made by the in-house team. It does not include the other interest received and not all will be received in 2018/19, as it is an annualised figure that includes interest relating to 2019/20.

10.18 An analysis of the overall in house investments held by the Council at the end of March 2019 is shown below:

(The previous half year is shown for comparison)

| **Fund** | **Closing Balance 31 Mar 19 £'000** | **Closing Balance 30 Sept 18 £'000** |
|---|---|---|
| Money Markets incl. CD's & Bonds | 35,500 | 37,364 |
| Money Market Funds | 25,345 | 35,957 |
| Business Reserve Accounts incl. Call Accounts | 1,295 | 4,503 |
| **Total In House Investments** | **62,140** | **77,824** |
| Corporate Equity Funds | 6,000 | 6,000 |
| **Total Investments** | **68,140** | **83,824** |

The value for the corporate equity funds in this table is the total fund balances as shown in the following section, rather than the nominal investment value of £6.0m.

## 11. CORPORATE EQUITY FUNDS

11.1 The equity income fund values for the second half year are as follows:

| Fund | Value of Fund 31 Mar 19 £'000 | Value of Fund 30 Sept 18 £'000 | Variation in 2nd half year £'000 |
|---|---|---|---|
| Royal London UK Equity Fund | 3,202.4 | 3,119.2 | 83.2 |
| Columbia Threadneedle UK Equity Income Fund | 3,031.1 | 3,043.8 | -12.7 |
| **Total Equity Funds** | **6,233.5** | **6,162.9** | **70.5** |

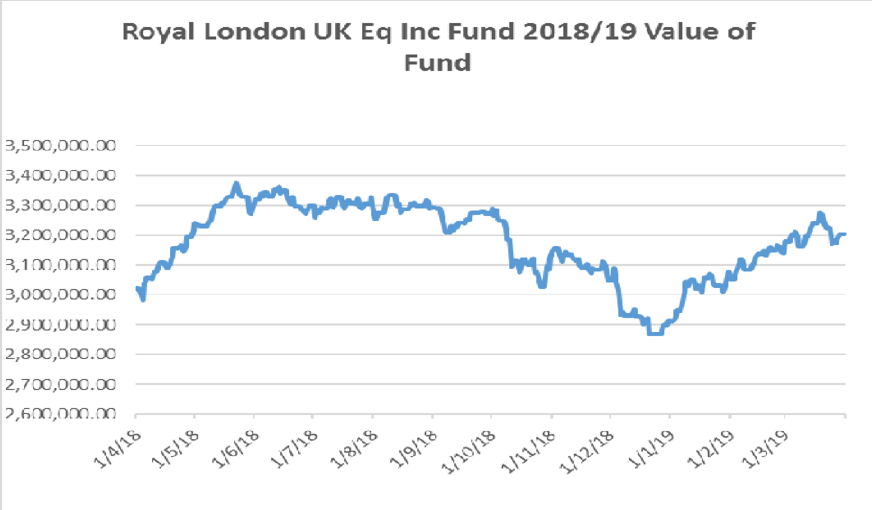
11.2 It can be seen from the table above that both funds had a positive value at year-end but Columbia Threadneedle had a negative variation between the half years.

11.3 The table below gives a breakdown of income and capital elements of growth for the second half year, analysing the fund movement between accrued interest and capital gain or loss.

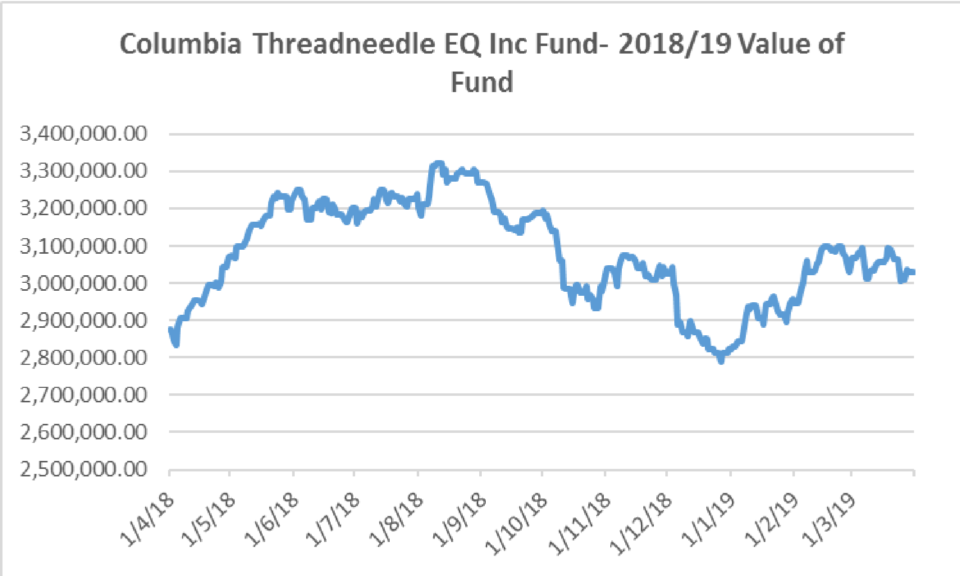
| Equity Fund | Invest -ment £'000 | Fund Value as at 31-3-19 £'000 | Growth Oct 18 to Mar 19 £'000 | Income element of growth £'000 | Income element of growth % | Capital element of growth £'000 | Capital element of growth % |
|---|---|---|---|---|---|---|---|
| Royal London | 3,000 | 3,202.4 | 202.4 | 71.2 | 35% | 131.2 | 65% |
| Columbia Threadneedle | 3,000 | 3,031.1 | 31.1 | 60.7 | 195% | -29.6 | -95% |

The equity funds pay dividend based on portfolio performance. Royal London is cash growth and the dividend remains within the portfolio as capital growth, whereas the Columbia's dividend automatically purchases additional shares in the fund. As the timescale requirement for operational use of the cash is undecided, no fixed drawdown date was defined. Funds may be withdrawn at any time, depending on either the Council's need for cash or the funds' return. However, it has been intended to regard the investments as long term, potentially for five years plus, as equities tend to make good returns over a longer time frame but can be subject to market 'shocks', such as Brexit or the USA / China trade dispute, in the shorter term.

11.4 Royal London (RLAM) UK Equity Income Fund value started to decline in December 2018 before its recovery in January 2019 as can be seen from the graph below.




11.5 Columbia Threadneedle Equity Income Fund had a similar scenario as RLAM, as the stocks held were broadly effected by the same international events.




11.6 The fund out-performed the peer group and the FTSE All-Share in October and November 2018 but under-performed both measures from December 2018 to March 2019.

## 12. COUNTERPARTY CREDIT RATINGS

12.1 The investments made in the second half year and the credit ratings applicable to the counterparty at the point at which the investment was made is shown in Appendix B.

12.2 It can be seen that all investments made within the second half year were in accordance with the Council's credit rating criteria.

12.3 Also attached for the Committee's information as Appendix D is the Council's current 2018/19 Counterparty lending list.

## 13. BENCHMARKING

13.1 Link Asset Services operate a Treasury Management Benchmarking Club; the Council is part of a local group comprising both District and County Councils, with the results being published quarterly. Analysis of the results for quarters three and four show that the Council's weighted average rate of return on its investments were 0.81% and 0.92% respectively. These were in line and above, respectively, with Link's model portfolio band range.

13.2 The results for quarters three and four also show that the Council's weighted average rate of return was marginally under that of the local group, as would be expected as the weighted average credit risk in the portfolio was below that of the local group. This is consistent with the Council balancing its aim of achieving the best rate of return on its investments while primarily protecting the security of these investments.

## 14. BORROWING

14.1 During the second half year, there was no long term borrowing activity other than to pay the second half year interest instalment on the £136.157m PWLB borrowing taken out in March 2012 for the HRA Self Financing settlement, which amounted to £2.383m.

14.2 During the half year it was not necessary to undertake any Money Market borrowing to fund cashflow deficits, with any shortfalls being managed within the Council's £50,000 overdraft facility with HSBC. The interest rate on this facility is 3.6% above Bank Rate and is charged on the cleared balance at the end of each day when that balance is in debit i.e. overdrawn. In the second half year overdraft interest of £5 was paid.

14.3 The Council will need to take out long-term borrowing to part finance the works to the leisure centres, as has been budgeted. As this long-term borrowing will cost more than the investment interest being earned on internal balances, and there is no immediate cash-flow requirement, it has not been appropriate to draw-down this debt in the year. However, it is expected that some of the long-term debt requirement will be taken out in 2019/20.

## 15 PRUDENTIAL INDICATORS

15.1 The 2018/19 Treasury Management Strategy included a number of Prudential Indicators within which the Council must operate. The two major ones are the Authorised Limit and Operational Boundary for borrowing purposes. It is confirmed that during the half year neither indicator has been exceeded.

**APPENDIX A**

## Investment Performance Analysis

### Table 1 - Money Market Investments

| Period | Investment Return (Annualised) | LIBID Benchmark (Annualised) | Out/(Under) Performance |
|---|---|---|---|
| **Up to 7 days** | | | |
| April to September 2018 | 0.50% | 0.50% | 0.00% |
| Interest earned 1st half year £ | 240 | 239 | 1 |
| October to March 2019 | 0 | 0 | 0 |
| Interest earned 2nd half year £ | 0 | 0 | 0 |
| Rate for year | 0.50% | 0.50% | 0.00% |
| Value of Interest earned in Year | 240 | 239 | 1 |
| **Over 7 days & Up to 3 months** | | | |
| April to September 2018 | No investments were made | | |
| October to March 2019 | 0.75% | 0.67% | 0.08% |
| Interest earned 1st half year £ | 5,610 | 4,999 | 611 |
| October to March 2019 | 0.89% | 0.81% | 0.08% |
| Interest earned 2nd half year £ | 19,187 | 17,503 | 1,684 |
| Rate for year | 0.85% | 0.77% | 0.08% |
| Value of Interest earned in Year | 24,797 | 22,502 | 2,295 |
| **Over 3 months & Up to 6 months** | | | |
| April to September 2018 | 0.79% | 0.78% | 0.01% |
| Interest earned 1st half year £ | 15,893 | 15,704 | 189 |
| October to March 2019 | 1.04% | 0.93% | 0.11% |
| Interest earned 2nd half year £ | 49,248 | 43,944 | 5,304 |
| Rate for year | 0.96% | 0.88% | 0.08% |
| Value of Interest earned in Year | 65,141 | 59,648 | 5,493 |
| **Over 6 months to 365 days** | | | |
| April to September 2018 | 1.04% | 0.94% | 0.10% |
| Interest earned 1st half year £ | 60,776 | 54,721 | 6,055 |
| October to March 2019 | 0.91% | 1.07% | -0.16% |
| Interest earned 2nd half year £ | 76,779 | 90,502 | -13,723 |
| Rate for year | 0.91% | 1.07% | -0.16% |
| Value of Interest earned in Year | 137,555 | 145,223 | -7,668 |
| **366 days and over** | | | |
| April to September 2018 | No investments were made | | |
| October to March 2019 | 1.15% | 1.07% | 0.08% |
| Interest earned 2nd half year £ | 37,802 | 35,135 | 2,667 |
| Rate for year | 1.06% | 1.04% | 0.02% |
| Value of Interest earned in Year | 37,802 | 35,135 | 2,667 |
| **Total interest first half year £** | **82,519** | **75,663** | **6,856** |
| **Total interest second half year £** | **183,016** | **187,084** | **-4,068** |
| **Total interest for year £** | **265,535** | **262,747** | **2,788** |

## Table 2 - Money Market Funds

| Fund | Investment Return (Annualised) | LIBID Benchmark (Annualised) | Out/(Under) Performance |
|---|---|---|---|
| **Deutsche (CNAV)** | | | |
| April to September 2018 | 0.46% | 0.50% | -0.04% |
| Interest earned 1st half year £ | 3,561 | 3,872 | -311 |
| October to March 2019 | 0.67% | 0.64% | 0.03% |
| Interest earned 2nd half year £ | 6,238 | 5,939 | 299 |
| Rate for year | 0.58% | 0.58% | 0.00% |
| Value of Interest earned in Year | 9,799 | 9,811 | -12 |
| **Goldman Sachs (CNAV)** | | | |
| April to September 2018 | 0.49% | 0.50% | -0.01% |
| Interest earned 1st half year £ | 10,475 | 10,582 | -107 |
| October to March 2019 | 0.70% | 0.64% | 0.06% |
| Interest earned 2nd half year £ | 12,995 | 11,982 | 1,013 |
| Rate for year | 0.59% | 0.57% | 0.02% |
| Value of Interest earned in Year | 23,470 | 22,564 | 906 |
| **Invesco (CNAV)** | | | |
| April to September 2018 | 0.53% | 0.50% | 0.03% |
| Interest earned 1st half year £ | 23,596 | 22,097 | 1,499 |
| October to March 2019 | 0.72% | 0.64% | 0.08% |
| Interest earned 2nd half year £ | 27,735 | 24,663 | 3,072 |
| Rate for year | 0.62% | 0.57% | 0.05% |
| Value of Interest earned in Year | 51,331 | 46,760 | 4,571 |
| **Aberdeen Standard (Used to be Standard Life (CNAV)** | | | |
| April to September 2018 | 0.56% | 0.50% | 0.06% |
| Interest earned 1st half year £ | 25,148 | 22,592 | 2,556 |
| October to March 2019 | 0.75% | 0.64% | 0.11% |
| Interest earned 2nd half year £ | 32,891 | 28,279 | 4,612 |
| Rate for year | 0.65% | 0.57% | 0.08% |
| Value of Interest earned in Year | 58,039 | 50,871 | 7,168 |
| **Federated Constant Net Asset Value (CNAV)** | | | |
| April to September 2018 | 0.61% | 0.50% | 0.11% |
| Interest earned 1st half year £ | 15,362 | 12,559 | 2,803 |
| October to March 2019 | 0.80% | 0.64% | 0.16% |
| Interest earned 2nd half year £ | 20,028 | 16,060 | 3,968 |
| Rate for year | 0.70% | 0.57% | 0.13% |
| Value of Interest earned in Year | 35,390 | 28,619 | 6,771 |
| **Federated Variable Net Asset Value (VNAV)** | | | |
| April to September 2018 | 0.70% | 0.50% | 0.20% |
| Interest earned 1st half year £ | 21,197 | 15,093 | 6,104 |
| October to March 2019 | 0.85% | 0.64% | 0.21% |
| Interest earned 2nd half year £ | 25,705 | 19,282 | 6,423 |
| Rate for year | 0.78% | 0.57% | 0.21% |

| Fund | Investment Return (Annualised) | LIBID Benchmark (Annualised) | Out/(Under) Performance |
|---|---|---|---|
| Value of Interest earned in Year | 46,902 | 34,375 | 12,527 |
| **Royal London Cash Plus Account (VNAV)** | | | |
| April to September 2018 | 0.74% | 0.50% | 0.24% |
| Interest earned 1st half year £ | 22,312 | 15,083 | 7,229 |
| October to March 2019 | 0.75% | 0.64% | 0.11% |
| Interest earned 2nd half year £ | 22,525 | 19,269 | 3,256 |
| Rate for year | 0.74% | 0.64% | 0.10% |
| Value of Interest earned in Year | 44,837 | 34,352 | 10,485 |
| **Total interest first half year £** | **121,651** | **101,878** | **19,773** |
| **Total interest second half year £** | **148,117** | **125,474** | **22,643** |
| **Total interest for year £** | **269,768** | **227,352** | **42,416** |

## Table 3 - Call Accounts

| Fund | Investment Return (Annualised) | LIBID Benchmark (Annualised) | Out/(Under) Performance |
|---|---|---|---|
| **HSBC Business Deposit Account** | | | |
| April to September 2018 | 0.57% | 0.50% | 0.07% |
| Interest earned 1st half year £ | 7,266 | 6,356 | 910 |
| October to March 2019 | 0.63% | 0.64% | -0.01% |
| Interest earned 2nd half year £ | 8,657 | 8,753 | -96 |
| Rate for year | 0.60% | 0.57% | 0.03% |
| Value of Interest earned in Year | 15,923 | 15,109 | 814 |
| **Svenska Handelsbanken Account** | | | |
| April to September 2018 | 0.45% | 0.53% | -0.08% |
| Interest earned 1st half year £ | 10,202 | 11,997 | -1,795 |
| October to March 2019 | 0.52% | 0.64% | -0.12% |
| Interest earned 2nd half year £ | 10,708 | 13,326 | -2,618 |
| Rate for year | 0.48% | 0.59% | -0.11% |
| Value of Interest earned in Year | 20,910 | 25,323 | -4,413 |
| **Total interest first half year £** | **17,468** | **18,353** | **-885** |
| **Total interest second half year £** | **19,365** | **22,079** | **-2,714** |
| **Total interest for year £** | **36,833** | **40,432** | **-3,599** |

## Table 4 - Summary of all investment interest 2018/19

| Vehicle | Return (Annualised) £’000 | Benchmark (Annualised) £’000 | Performance £’000 |
|---|---|---|---|
| Money Markets | 265.5 | 262.7 | 2.8 |
| Money Market Funds | 269.8 | 227.4 | 42.4 |
| Call Accounts | 36.8 | 40.4 | -3.6 |
| **Total** | **572.1** | **530.5** | **41.6** |

**APPENDIX B**

## Counterparty Rating At Time Of Investment

| Counterparty | Investment Amount | Credit Rating | | Duration of Investment (days) |
|---|---|---|---|---|
| | | Long Term | Short Term | |
| **Banks** | | | | |
| **WDC Minimum** | ( Fitch ) | **A** | **F1** | |
| Lloyds Bank | £3,000,000 | A+ | F1 | 400 |
| Close Brothers | £1,000,000 | A | F1 | 363 |
| Standard Chartered CD | £1,500,000 | A+ | F1 | 182 |
| DBS Bank Ltd | £3,000,000 | AA- | F1+ | 365 |
| Goldman Sachs Internationale | £1,000,000 | A | F1 | 364 |
| Toronto CD | £2,000,000 | AA- | F1+ | 364 |
| Societe Generale | £1,000,000 | A | F1 | 364 |
| Goldman Sachs Internationale | £2,000,000 | A | F1 | 363 |
| Lloyds Bank | £1,000,000 | A+ | F1 | 90 |
| Close Brothers | £2,000,000 | A | F1 | 181 |
| Santander | £2,000,000 | A+ | F1 | 181 |
| Close Brothers | £1,000,000 | A | F1 | 182 |
| **Local Authority** | | | | |
| Torfaen County Borough Council | £5,000,000 | n/a | n/a | 32 |
| Thurrock Council | £2,000,000 | n/a | n/a | 43 |
| Thurrock Council | £2,000,000 | n/a | n/a | 338 |
| Surrey Heath Borough Council | £1,000,000 | n/a | n/a | 182 |
| Monmouthshire County Council | £5,000,000 | n/a | n/a | 91 |
| Thurrock Council | £2,000,000 | n/a | n/a | 186 |
| **MoneyMarket Funds** (Investment amount is average principal in fund during the half year) | | | | |
| **WDC Minimum** | Fitch AAA & Volatility rating VR1+ or S & P AAAm or Moodys AAA & Volatility Rating MR1+ | | | |
| Deutsche | £1,430,791 | Fund retained its rating throughout half year | | liquid |
| Invesco Aim | £7,717,041 | | | |
| Federated Prime Rate | £11,000,000 | | | |
| Aberdeen Standard | £8,913,488 | | | |
| Goldman Sachs | £4,190,247 | | | |
| Royal London Asset Management | £6,000,000 | | | |
| **Call Accounts** | | | | |
| **WDC Minimum** | ( Fitch ) | **A+** | | **F1** |
| HSBC Business Deposit Account | £2,738,709 | Counterparty retained its rating throughout period of AA- long term, F1+ short term | | liquid |
| Svenska Handelsbanken | £4,500,000 | | | |

# APPENDIX C

## LINK SERVICES COMMENTARY ON THE CURRENT ECONOMIC BACKGROUND

1. **UK.** After weak **economic growth** of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% year on year confirming that the UK was the third fastest growing country in the G7 in quarter 4.

2. After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

3. As for **CPI inflation** itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

4. The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in **household spending power** is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

5. **Brexit.** The Conservative minority government has so far, (8.4.19), been unable to muster a majority in the Commons over its Brexit deal. The EU has set a deadline of April 12 for the House of Commons to propose what form of Brexit it would support. If another form of Brexit, other than the proposed deal, does get a majority by April 12, then it is likely there will need to be a long delay to Brexit to allow time for negotiations with the EU. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

6. **USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2%

in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

7. **EUROZONE.** The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

8. **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

9. **JAPAN.** Has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

10. **WORLD GROWTH.** Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.

**APPENDIX D**

**WARWICK DISTRICT COUNCIL STANDARD LENDING LIST AS AT MARCH 2019**

## BANKS

### INVESTMENTS UP TO 365 DAYS (3 months for explicitly guaranteed subsidiaries)

| Investment / Counterparty type: | S/term | L/term minimum | Security / Min credit rating | Max limit per counterparty | Max. Maturity period | Use |
|---|---|---|---|---|---|---|
| Bank deposits | F1 | A | UK Sovereign | £7m AA- & above, £6m if L/term rating minimum A+,£4m if L/Term rating A. | 365 days | In House +Advice & EFM* |
| Bank - part nationalised UK | F1 | A | UK Sovereign | £9m | 365 days | In House +Advice & EFM* |
| Bank subsidiaries of UK Banks | Unrated | Unrated | Explicit Parent Guarantee | £5m | 3 months | In House +Advice & EFM* |

**NB**. Includes Business Call Reserve Accounts and special tranches and any other form of investment with that institution e.g. Certificate of Deposits, Corporate Bonds and Repo's except where the Repo collateral is more highly credit rated than the counterparty in which case the counterparty limit is increased by £3m with a maximum in Repo's of £3m.

Counterparty Limit is also the Group Limit where investments are with different but related institutions.

### INVESTMENTS OVER 365 DAYS

| Investment / Counterparty type: | S/term | L/term minimum | Security / Min credit rating | Max limit per counterparty | Max. Maturity period | Use |
|---|---|---|---|---|---|---|
| Bank deposits | F1 | A | UK Sovereign | £7m AA- & above, £6m if L/term rating minimum A+,£4m if L/Term rating A. | 2 years | In House +Advice & EFM* |
| Bank - part nationalised UK | F1 | A | UK Sovereign | £9m | 2 years | In House +Advice & EFM* |

**NB.** Includes Business Call Reserve Accounts and special tranches and any other form of investment with that institution e.g. Certificate of Deposits, Corporate Bonds and Repo's.

Counterparty limit is also the Group Limit where investments are with different but related institutions.

£15m overall limit for Corporate Bond / Property Funds & £20m limit for all counterparties.

**NB -** £20m over 365-day limit only applies to those investments where at 1 April the remaining term is greater than 365 days. Any over 365 day investment with 365 days or less to maturity at 1 April is deemed to be short term.

| BANK NAME | OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.) | GROUP LIMIT APPLIES |
|---|---|---|
| **AUSTRALIA (AAA)** | | |
| Australia & New Zealand Banking Group Ltd – | | |
| Commonwealth Bank of Australia | | |
| Macquarie Bank Ltd | | |
| National Australia Bank Ltd | Bank of New Zealand*<br>Yorkshire Bank *(Trading name of Clydesdale)<br>Clydesdale Bank* | Yes |
| Westpac Banking Corporation | | |
| **BELGIUM (AA)** | | |
| BNP Paribas Fortis | | |
| KBC Bank NV | | |
| **CANADA (AAA)** | | |
| Bank of Montreal | Bank of Montreal Ireland plc* | |
| Bank of Nova Scotia | Scotia Bank*<br>Scotia Bank (Ireland) Ltd*<br>Scotia Bank Capital Trust (United States)*<br>Scotia Bank Europe plc* | |
| Canadian Imperial Bank of Commerce - negative outlook | Canadian Imperial Holdings Inc New York*<br>CIBC World Markets Holdings Inc* | |
| National Bank of Canada | National Bank of Canada New York Branch* | |
| Royal Bank of Canada | Royal Trust Company*<br>Royal Bank of Canada Europe*<br>Royal Bank of Canada Suisse*<br>RBC Centura Banks Inc* | |
| Toronto Dominion Bank | TD Banknorth Inc* | |
| **DENMARK (AAA)** | | |
| Danske Bank | | |
| **FINLAND (AA+)** | | |
| Nordea Bank Abp | Nordea Bank Denmark*<br>Nordea Bank AB<br>Nordea Bank Norge*<br>Nordea Bank North America* | Yes |
| **FRANCE (AA)** | | |
| BNP Paribas | | |
| Credit Agricole Corporate & Investment Bank | | |
| Credit Industriel et Commercial | | |
| Credit Agricole SA | | |
| Societe Generale | | |

| BANK NAME | OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.) | GROUP LIMIT APPLIES |
|---|---|---|
| **GERMANY (AAA)** | | |
| DZ Bank AG (Deutsche Zentral-genossenscaftsbank) | | |
| Landesbanken Hessen-Thueringen Girozentrale (Helaba) | | |
| Landwirtschaftliche Rentenbank | | |
| NRW Bank | | |
| **HONG KONG (AA+)** | | |
| The Hong Kong & Shanghai Banking Corporation Ltd | | |
| **LUXEMBOURG (AAA)** | | |
| Clearstream Banking | | |
| **NETHERLANDS (AAA)** | | |
| ABN AMRO Bank N.V | | |
| Bank Nederlandse Gemeenten | | |
| Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland) | | |
| ING Bank NV | | |
| **QATAR (AA)**OUT OF RANGE—negative watch | | |
| Qatar National Bank- monitoring | | |
| **SINGAPORE (AAA)** | | |
| DBS Bank Ltd | DBS Bank ( Hong Kong )* | |
| Oversea Chinese Banking Corporation Ltd | | |
| United Overseas Bank Ltd | | |
| **SWEDEN (AAA)** | | |
| Nordea Bank AB | Nordea Bank Denmark*<br>Nordea Bank Finland<br>Nordea Bank Norge*<br>Nordea Bank North America* | Yes |
| Skandinaviska Enskilde Banken AB | SEB Bolan* | |
| Svenska Handelsbanken AB | Stadtshypotek*<br>Svenska Handelsbanken Inc USA* | |
| Swedbank AB | | |
| **SWITZERLAND (AAA)** | | |
| Credit Suisse AG | | |
| UBS AG | | |
| **UNITED ARAB EMIRATES (AA)** | | |
| First Abu Dhabi Bank PJSC | | |
| **UNITED KINGDOM (AA)** negative outlook | | |
| Abbey National Treasury Services plc-negative watch | | |
| Barclays Bank plc- negative | | |

| BANK NAME | OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc.) | GROUP LIMIT APPLIES |
|---|---|---|
| watch | | |
| Close Brothers-negative watch | | |
| Goldman Sachs International Bank | | |
| HSBC Bank plc – negative watch | HSBC AM*<br>HFC Bank Ltd*<br>Hong Kong & Shanghai Banking Corporation*<br>HSBC Finance Corp*<br>HSBC Finance*<br>HSBC USA<br>Hang Seng Bank* | Yes |
| Lloyds Banking Group:<br>Lloyds TSB<br>Bank of Scotland | Halifax plc*<br>Bank of Western Australia Ltd*.<br>Cheltenham & Gloucester*<br>Scottish Widows Investment Partnership*<br>Scottish Widows plc* | Yes |
| Santander UK plc - negative watch | | |
| Standard Chartered Bank | | |
| Sumitomo Mitsui Banking Corporation Europe Ltd | | |
| UBS Ltd | | |
| **UNITED STATES OF AMERICA (AAA)**<br>MONITORING | | |
| HSBC Bank USA NA | HSBC AM*<br>HFC Bank Ltd*<br>Hong Kong & Shanghai Banking Corporation*<br>HSBC Finance Corp*<br>HSBC Finance*<br>HSBC UK<br>Hang Seng Bank* | Yes |
| Bank Of America | | |
| Bank of New York Mellon | Bank of New York (Delaware USA)*<br>Bank of New York (New York USA)*<br>Bank of New York Trust Company* | |
| Citibank N.A | | |
| JP Morgan Chase Bank NA | Bank One Corp*<br>Bank One Financial LLC*<br>Bank One NA *<br>First USA Inc*<br>NDB Bank NA*<br>Chemical Bank *<br>Chemical Banking Corp*<br>JP Morgan & Co Inc*<br>Chase Bank USA*<br>Robert Fleming Ltd* | |
| Wells Fargo Bank NA | Wachovia Bank*<br>Wachovia Bank NA North Carolina USA* | |

**BUILDING SOCIETIES**

**INVESTMENTS 365 DAYS OR LESS**

| Investment / Counterparty type: | S/term | L/term | Security / Min credit rating | Max limit per counterparty | Max. Maturity period |
|---|---|---|---|---|---|
| Building Societies - category A | F1 | A | UK Sovereign | £4m | 365 days |
| Building Societies - category B<br>• Coventry<br>• Nationwide (negative outlook) LT=A | F1 | | UK Sovereign | £2m | 365 days |
| Building societies - assets > £500m (Category C)<br>• Yorkshire<br>• Skipton<br>• Leeds<br>• Principality<br>• West Bromwich<br>• Newcastle (Fitch removed ratings 7.9.16)<br>• Nottingham<br>• Progressive<br>• Cumberland<br>• National Counties<br>• Saffron<br>• Cambridge<br>• Monmouthshire<br>• Furness<br>• Leek United<br>• Newbury<br>• Hinckley & Rugby<br>• Ipswich | | | | £1m | 3 months |

**INVESTMENTS OVER 365 DAYS**

| Investment / Counterparty type: | S/term | L/term | Security / Min credit rating | Max limit per counterparty | Max. Maturity period |
|---|---|---|---|---|---|
| Building societies Category A & B (see above) | F1 | A | UK Sovereign | £1m | 2 years |

**NB.** Group limit of £8m.

**OTHER COUNTERPARTIES**

| Investment / Counterparty type: | S/term | L/term | Security / Min credit rating | Max limit per counterparty | Max. Maturity period |
|---|---|---|---|---|---|
| DMADF | n/a | n/a | UK Sovereign | £12m | 365 days |
| UK Govt. (includes Gilt Edged Securities & Treasury Bills), Local Authorities / Public Corporations / Nationalised Industries. | n/a | n/a | High viability / support | £9m | 365 days |

| Investment / Counterparty type: | S/term | L/term | Security / Min credit rating | Max limit per counterparty | Max. Maturity period |
|---|---|---|---|---|---|
| Money Market Fund(CNAV) | AAAm / Aaa-mf/AAAmmf | | | £9m | liquid |
| Money Market Fund (VNAV) | AAAf S1 / Aaa-bf/ AAA/V1 | | | £6m | liquid |
| **Corporate bonds** - category 1 | A | | UK Sovereign | £4m | 2 years |
| | A+ | | | £6m | |
| | AA - & ABOVE | | | £7m | |
| Corporate bonds - category 2 | A | | | £9m | 2 years |
| Corporate bonds - category 3 | A | | UK Sovereign | £4m | 2 years |
| | A+ | | | £5m | |
| | AA - & ABOVE | | | £6m | |
| **Covered bonds** - category 1 | A | | UK Sovereign | £4m | 2 years |
| | A+ | | | £5m | |
| | AA - & ABOVE | | | £6m | |
| Covered bonds - category 2 | A | | | £9m | 2 years |
| Covered bonds - category 3 | A | | UK Sovereign | £4m | 2 years |
| | A+ | | | £5m | |
| | AA - & ABOVE | | | £6m | |
| **Bonds** - Supranational / Multi Lateral Development Banks<br>European Community<br>European Investment Bank<br>African Development Bank<br>Asian Development Bank<br>Council of Europe Development Bank<br>European Bank for Reconstruction & Development<br>Inter-American Development Bank<br>International Bank of Reconstruction & Development<br>*Or* any other Supranational/Multi-Lateral Development Bank meeting criteria. | AAA / Govt Guarantee | | | £5m | 364 days |
| **Floating Rate Notes** - category 1 | A | | | £4m | 364 days |
| | A+ | | | £5m | |
| | AA - & ABOVE | | | £6m | |
| Floating Rate Notes - category 2 | A | | | £9m | 364 days |
| Floating Rate Notes - category 3 | A | | | £4m | |
| | A+ | | | £5m | |

| Investment / Counterparty type: | S/term | L/term | Security / Min credit rating | Max limit per counterparty | Max. Maturity period |
|---|---|---|---|---|---|
| | AA<br>- & ABOVE | | | £6m | 364 days |
| Eligible Bank Bills | n/a | | Determined by EFM | £5m | 364 days |
| Sterling Securities guaranteed by HM Government | n/a | | UK Sovereign | £9m | Not defined |
| Local Authorities | n/a | Viability/support= High £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties. | | £9m | 5 years |
| **Corporate Equity Funds** - low risk (UK Equity Income Funds) | n/a | Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment. | | £4m | 10 years |
| Corporate Equity Funds - medium risk (UK Capital Growth Funds) | n/a | Maximum investment limit subject to 10% capital growth i.e. maximum is 110% of original investment. | | £2m | 10 years |
| Corporate Bond Funds | BBB | | £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties. | £5m | 10 years |
| Pooled property fund e.g.: REITS | £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties. | | | £5m | 10 years |
| CCLA property funds | n/a | Security of Trustee of fund (LAMIT) controlled by LGA, COSLA who appoint the members and officers of LAMIT. £15m overall limit for Corporate Bond/Property Funds & £20m limit for all counterparties. | | £5m | 10 years |

**Categories for Covered Bonds, Corporate Bonds (must be Senior Unsecured), Floating Rate Notes:**
Category 1: Issued by private sector Financial Institutions
Category 2: Issued by Financial institutions wholly owned or part owned by the UK Government
Category 3: Issued by Corporates